China’s Small Micro Enterprise Financing Problems and Countermeasures

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Abstract. China’s small micro enterprise is an important part of the national economy, has become the main channel of employment, the force of increasing the financial and creating a thriving market. On the other hand, small micro enterprise with flexible operation mechanism and market adaptability, become the important strength that contribute to China’s economic system reform. In China, about 97% of all enterprises are small micro enterprises, provide jobs is 4-5 times higher than large and medium-sized enterprises, at the same time, it is the main channel to solve the employment of urban and rural surplus labor force in our country. But in recent years, about research on this topic has the important practical significance which impels small micro enterprises development.

The Status and Causes of Small and Micro Enterprises Financing

The status of small and micro enterprises financing

Rely on self-raised funds. According to figures from China’s commerce ministry, in our country, rely on self-raised funds the development of small micro enterprises accounted for about 65%, rely on bank loans for the development of small micro enterprises accounted for about 25%, the rest of the small micro enterprise rely on private capital. This financing characteristics lead to the development of small and micro enterprises do not have sufficient capital and flexible cash flow, to expand the scale and even realize the transformation of enterprises is more difficult. Since the self financing is mostly due to the scope of business owners of relatives and friends, Led to small and micro enterprises are mostly family owned enterprises, the management system is chaotic, the financial system is not clear and transparent, only increases the financing difficulties.

Rely on bank financing. With the saturation of large and medium-sized enterprise financing business, Countries to increase policy support for small and micro enterprises, various banking institutions to establish a small business credit service center, to launch innovative small micro enterprise products to meet the demand of the enterprise. On March 20, 2014, the People’s Bank of China issued “about to open a little further credits to support the expansion of small and micro enterprises credit delivery notice”, which officially under the credit policy to support the creation of lending support small category refinancing, specifically designed to support financial institutions to expand small micro enterprise credit, while supporting small and then issued a nationwide total of 50 billion yuan credit line.

Causes of Small and Micro Enterprises Financing Difficulties

Small and micro enterprises own defects

Chinese small and micro enterprises majority are “family management”, mostly belong to the individual proprietorship enterprise or partnership enterprise. Its characteristics are basically internal management confusion, management efficiency is not well, random large accounting, lack of transparent financial management system and effective financial supervision system, information
asymmetry, so the bank is difficult to accurately assess the validity, of its financial information, credit risk is bigger, high risk of adverse selection.

**Narrow financing channels**

**Equity financing is difficult to achieve.** In our country, the GEM provides platform for high new small micro enterprise financing, is the direct financing channels, at the same time, it also helps to realize the positive interaction between venture capital and GEM market. However, there is a need for urgent financing of high-tech small and micro enterprises usually have the following disadvantages: set up time is short, small size, performance is not outstanding, etc. Thus such companies can’t enter the financing in a short period of time.

**The feasibility of debt financing is low.** Due to their own strength is weak, it is difficult to meet the requirements of the securities law. On the other hand, due to the limitations of small and micro enterprise development stage, longer duration of corporate bonds is difficult to attract investors, and the issuance costs also bring enormous pressure to such enterprises.

**Imperfect laws and regulations, the preferential policy is difficult to implement**

In order to support the development of small and micro enterprises, Countries have introduced a number of policies and guidances. However, in the implementation process, the promotion of the role is not fully play. Most small business owners’ response to help is not big. Investigate its reason, most policies are guiding principles, the local government in the process concrete implementation faced many problems. Policy intervals are too dense, local governments have more and more wait and see attitude. In addition, policy propaganda strength is small, most small and micro business owners failed to understand the relevant preferential policies in a timely manner.

**Small and Micro Enterprises Financing Countermeasures**

**Promote self construction**

**Strengthen internal control, improve the supervision system.** For small and micro business management is not standardized, low transparency of information, enterprise system is not in perfect situation, enterprises should establish and continuously improve enterprise financial systems, regularly provide comprehensive and accurate real business information to stakeholders, minimizing both sides information asymmetry; at the same time, focusing external audit, to ensure the independence of audit oversight of third parties, to obtain more convincing financial information. Transparent and effective financial information and continued good momentum of development can provide a powerful bargaining condition for the small micro-enterprise financing.

**Strengthening the construction of credit.** Set up the credit consciousness, maintain good repayment willingness, to ensure their ability to repay the credit is the core to improve its credit rating. Reduce the risk concerns of financial institutions, to promote the development of enterprises, to obtain their own interests, so as to achieve a win-win situation.

**Effective use of internal funds.** The most traditional and lowest cost of internal financing is retained earnings. Retained earnings are low cost, small risk, convenient, independent, when the business in juvenile and growing period, to access external financing channel like banks and other financial institutes are extremely important. Companies should be effective allocation of profit, but cannot affect the further development of enterprises on the basis of the distribution of profits investors, also can be achieved through the placement of shares to shareholders retained earnings.

**Improve the financing channels**

**Make full use of private capital, improve the financing guarantee system.** For small and micro enterprises is weak and the characteristics of the small amount of capital demand, they can take the commercial guarantee, policy guarantee and mutual guarantee parallel operation mode, to support small and micro enterprises which have high potential development. They can also set up a national small and micro enterprise credit guarantee fund and small micro enterprise credit
guarantee associations and set reasonable compensation rates based on the qualification of small and micro enterprises, to provide protection for small micro-enterprise financing.

**Credit model innovation, building small and micro enterprises policy financing model.** Credit market failure is the main reason to cause small micro-enterprise financing bottlenecks. Between the small and micro enterprises and commercial banks asymmetric information, credit risk and higher costs inhibit market allocation of credit funds. Our country can learn from “Small and medium-sized enterprise banking model” to establish small and micro enterprises policy banks, guarantee long-term government support for small and medium enterprises from the mechanisms, institutions and funds, and government departments use the unique advantages of information superiority and capital costs, corrected small micro-enterprise credit financing market failure. At the same time according to the characteristics of small and micro enterprises financing, credit business process transformation, expanding credit markets. Singapore’s Temasek Group, according to a set of standardized, process-oriented principles, to design a “credit factory” mode, reconstruction SME loans process.

**Creditor’s rights financing.** Following the revising “Corporate Bond Management Regulations”, the small and micro enterprises be included in the scope of corporate bond issuers, and liberalization of interest rates gradually adjust and control, increase bond products, to improve the circulation transfer mechanism, improve the corporate bond market, to address the small micro-enterprise financing problem.

**Set up fund financing.** It can be tried with the Government to promote the establishment of state-owned capital as the main fund industry, equity participation in the operation of enterprises, and guide local governments, venture capital institutions and community groups, individual financial support in the start-up period, growth of small and micro enterprises. Henan provincial government has begun to explore the establishment of the SMEs Development Fund.

**Policy Suggestions**

**Pay attention to national policy, make full use of policy support and capital market favorable measures**

In recent years, more attention to SMEs, continue to release new favorable policies and improvement initiatives, “CPC Central Committee on National Economic and Social Development Five-Year Plan”, clearly stated: to speed up financial reform, focus on strengthening small and medium micro enterprises, rural areas, especially in poor areas and services. Governments at all levels have been gradually introduced to support small and micro enterprise development advice, small and micro enterprises should focus on national policy, timely grasp of the relevant information, and grasp the opportunity.

**Fiscal and tax policy support**

Strengthen legislation, through multi-level legislation to provide policy support for SMEs financing. For standardization, providing legal guarantee fairness, the promotion of small and micro enterprises to form a stable policy is expected to effectively enhance the ability of small micro-enterprise financing. Promote inclusive policy benefit, avoid discrimination, strengthen policy coordination organization, and reduce enterprise’ costs.

**Credit policy management, establish and improve the risk compensation mechanism**

Increase financial allocations to expand the scope of compensation, subsidies play a small business loan funds to offset the risk of efficacy, to provide double protection for banks and businesses, give full play to the government’s ability to regulate the market economy. May be listed on the “new three board” and in the regional equity market completed the shareholding reform of listed small and micro enterprises in financial assistance to support the small and micro enterprises to use short-term financing bills, medium-term notes, a collection of notes, private debt and other tools for financing. Difficult to receive loans of non-performing loans, the government should help
banks clean income, some avoiding the debt, like “deadbeat”, to give resolutely combating, reducing the risk of bank financing, bank loans will be reduced from the threshold, in the promotion of enterprise at the same time promote the development of their own development, will arrive win-win situation through cooperation.

Implications and suggestions
SMEs are an important part of our national business, the contribution to our country’s economic development is an indispensable driving force. How to optimize the allocation of resources, improve the small and micro enterprises to ease financing is a very real issue facing our country today, it has a very important practical significance. For the current situation, it should be given to improve both internal and external. Internally on small and micro enterprises, promote management technology, improve the internal governance structure, strengthen internal control, so that the effective use of internal resources is the only way to promote the company development; adhere to the spirit of honesty, establish credit awareness, with a good reputation to win the support of external financing. On the other hand, make full use of private capital and innovative credit models, developed from many financing channels, strengthen the government’s support and guidance, to further strengthen the fiscal policy support and credit policy management, and regulate the financial market order, promote the healthy financing of small and micro enterprises have order development. Article on countermeasures and suggestions were put forward specific descriptive analysis, hope for the future development of small and micro enterprises as well as help our economy.

References